



San Bernardino Valley Enterprise Zone Overview

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Purpose of the California Enterprise Zone program

- Stimulate business and industrial growth in economically challenged areas of the State
- Create increased job opportunities

What are the Enterprise Zone Benefits?

- Hiring Tax Credit
- Sales and Use Tax Credit
- Business Expense Deduction
- Net Interest Deduction for Lenders
- Net Operating Loss Carryover

Entity Types

- Enterprise Zone incentives are State only
 - Available to offset California tax liability on income attributable to Enterprise Zone activity
- Available to all types of taxpayers
- C-Corporations
- S-Corporations
 - 1/3 of the incentives apply at the S-Corp level
 - 100% of the incentives also pass through to the S-Corporation shareholders

Entity Types *(continued)*

- Other pass-through entities (i.e., Partnerships, Limited Liability Companies) pass through 100% of the incentives
- Credits may not reduce the \$800 minimum franchise tax
- To claim any deduction or credit, the taxpayer must attach Form FTB 3805Z to the California tax return

Enterprise Zone Incentive Benefits

Hiring Credit

- Hiring credits allow EZ businesses to reduce State income tax by a percentage of qualified wages paid to a qualified employee

Enterprise Zone Incentive Benefits

Hiring Credit (continued)

- Over \$37,000 in tax credits for just one qualified employee during their first 5 years of employment
- Hiring Credits are retroactive
- Unused credits can be carried forward until exhausted as long as the business does not leave the Enterprise Zone

Enterprise Zone Incentive Benefits

Hiring Credit (continued)

- There are 11 targeted groups of eligibility
- Employees can be full time, part time, white/blue collar, seasonal, entry level or management

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Hiring Credit (continued)

- Prior to being hired, the employee must qualify under just one of the following:
- Economically disadvantaged
- A qualified Veteran: Vietnam era, separated in last 48 months, service connected disabled
- Resident of a Targeted Employment Area (TEA)
- Disabled

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Hiring Credit (continued)

- An ex-offender (misdemeanor, felony)
- A qualified displaced worker
- Enrolled in WIA, Calworks, WOTC (Work Opportunity Tax Credit)
- Received public assistance such as food stamps, welfare, etc.
- Native American Indian, Hawaiian, Samoan

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Hiring Credit Misconceptions (continued)

- “We don’t hire anyone who qualifies”
- “We don’t hire entry level employees”
- “We’re not a manufacturer”
- “The employees don’t live in the EZ”
- “We’re already taking the credits”

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Hiring Credit (continued)

The credit is equal to a percentage of qualified wages paid to qualified employee during a specified time period as shown below:

<u>Period of Allowed Employment</u>	<u>Credit on Wages Paid (%)</u>
First 12 months	50%
Second 12 months	40%
Third 12 months	30%
Fourth 12 months	20%
Fifth 12 months	10%
After 60 months	None

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Hiring Credit (continued)

- The credit is based on the lesser of the actual hourly wage paid or 150% of the minimum hourly wage
- Current minimum hourly wage is \$8.00 per hour and, therefore, the maximum wage on which the credit may be based is \$12.00 per hour

Enterprise Zone Incentive Benefits

Hiring Credit (continued)

The hiring of a full-time “qualified” employee at 150% of minimum wage (\$12.00/hr and assuming 2,080 hours in a year) would generate the following hiring credit amounts:

<u>Year</u>	<u>Credit Amount</u>
2008	\$12,480*
2009	\$ 9,984
2010	\$ 7,488
2011	\$ 4,992
2012	<u>\$ 2,496</u>
Total	\$37,440

$$*\$12.00 \times 2,080 \text{ hrs} = \$24,960 \times .50 = \$12,480$$

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Hiring Credit Limitations

- At least 50% of the employee's work must be performed inside the boundaries of the Enterprise Zone
- At least 90% of the “qualified” employee's work must be directly related to a trade or business activity located in an Enterprise Zone

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Hiring Credit Limitations (continued)

- If the amount of credit is greater than the tax on Enterprise Zone income in any year, the excess credit may be carried over to future years
- Tax returns may be amended to claim the Enterprise Zone hiring credits

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Sales and Use Tax Credit

- EZ businesses may reduce State taxes by the amount of the sales or use tax paid or incurred on the purchase of qualified property for exclusive use in the Enterprise Zone
- Qualified property is machinery used to:
 - Manufacture, process, combine or otherwise fabricate a product
 - Produce renewable energy resources
 - Control air or water pollution

Enterprise Zone Incentive Benefits

Sales and Use Tax Credit (continued)

- Qualified machinery also includes data handling or communications equipment:
 - Computers, telephones, fax machines, etc.
- Taxpayers in an EZ may file an amended return to claim this credit

Enterprise Zone Incentive Benefits

Sales and Use Tax Credit (continued)

- The amount of sales and use tax credit has the following dollar limitations:
 - Individuals, Partnerships & LLCs: Up to \$1 million in qualified machinery costs per year
 - Corporations: Up to \$20 million in qualified machinery costs per year
- Leased property may qualify if the lease qualifies as a “capital” lease

Enterprise Zone Incentive Benefits

Business Expense Deduction

- Businesses conducting a trade or business within an Enterprise Zone may elect to treat 40% of the cost of qualified property as a business expense in the first year it is placed in service:
 - Qualified property is tangible personal property (IRC Section 1245) acquired by purchase for exclusive use within a zone

Enterprise Zone Incentive Benefits

Business Expense Deduction (continued)

- Property does not qualify if it is:
 - Transferred between members of an affiliated group
 - Acquired as a gift or inherited
 - Traded for other property, or
 - Received from a related party
- This election must be made on an originally filed return

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Net Interest Deduction for Lenders

- A deduction from income is allowed for the amount of net interest received from loans made to a trade or business located in an Enterprise Zone
- Applies to banks or individuals who lend money to an EZ business as long as they have no equity or ownership interest in the entity

Enterprise Zone Incentive Benefits

Net Operating Loss Carryover

- A business that operates within an Enterprise Zone may carry over 100% of their net operating loss which results from activity within the zone and which was generated after the date of zone designation
- The carryover can only be carried forward, not back, and can only be applied to income from within the zone

Enterprise Zone Incentive Benefits

Apportionment Formula

- EZ tax credits and deductions are limited to the tax on business income attributable to operations within the zone
- If a business is located within and outside an EZ, you must determine the portion of the total business operations within the EZ by using property and payroll calculations

Enterprise Zone Resources

- Useful California EZ Franchise Tax Board publications:
 - FTB 3805Z – Enterprise Zone deduction & Credits Summary
 - FTB 1126 - Frequently asked questions about Enterprise Zones
- For more information:
 - Franchise Tax Board @ www.ftb.ca.gov
 - Franchise Tax Board hot line @ 916-845-3464
 - California Association of Enterprise Zones @ www.caez.org